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Dear Clients and Friends:

YEAR-END TAX PLANNING

As the year draws to a close, you should make a final review of your 2025 tax situation to determine if you can take advantage of year-end tax planning. This letter and other useful accounting and tax information is available on my website at www.solakco.com.

TAX HORIZON

With the passage of *One Big Beautiful Bill*, signed by *President Trump* on *July 4, 2025*, our tax situation is now certain. The tax changes made in the *2017 Tax Cuts and Jobs Act* that were set to expire on December 31, 2025, are now permanent. The new tax law made *a temporary increase in the tax deduction* for State and Local Tax (SALT) from \$10,000 to \$40,000 for tax year 2025, subject to a phaseout and permanently increased the standard deduction to \$31,500 (joint return) or \$15,750 (single). The new tax law added temporary tax deductions for tax years 2025 through 2028: 1) \$6,000 senior deduction 2) \$10,000 of interest for US assembled passenger vehicles purchased after December 31, 2024 for personal use; 3) \$25,000 for qualified Tips; and 4) \$12,500 (single) or \$25,000 (joint return) deduction for qualified overtime pay – all subject to an income phaseout. The One Big Beautiful Bill keeps the existing Estate and Gift rules in place except for increasing the tax exemption to \$15,000,000 for 2026.

The tax rate brackets that have been in effect for the last several years remain with annual inflation adjustments.

TAX RATES

For 2025, there are seven tax brackets ranging from *10% to 37%* for federal income tax purposes. The following table shows the tax brackets at the various levels of taxable income:

Bracket	Joint Return	Single Return
10%	To \$ 23,850	To \$ 11,925
12%	To \$ 96,950	To \$ 48,475
22%	To \$206,700	To \$103,350
24%	To \$394,600	To \$197,300
32%	To \$501,050	To \$250,525
35%	To \$751,600	To \$626,350
37%	Over \$751,600	Over \$626,350

Net long-term capital gains and qualifying dividends are subject to a maximum tax rate of 15% (*Zero if taxable income does not exceed \$96,700 joint and \$48,350 single*) up to taxable income of \$600,050 joint or \$533,400 single. If taxable income exceeds \$600,050 joint or \$533,400 single, the tax on net long-term capital gains and qualifying dividends is 20%.

QUALIFIED BUSINESS INCOME DEDUCTION

The 20% deduction for noncorporate taxpayers of qualified business income (QBI) for sole proprietorships, partnerships, and S Corporations is now permanent. Several restrictions and limitations apply but the intent of this deduction is to provide small businesses with a tax reduction in lieu of the regular corporation tax reduction from 35% to 21%.

ALTERNATIVE MINIMUM TAX

Federal income tax rules require a separate computation to be made to determine if the Alternative Minimum Tax (AMT) applies for a given year. The effect of the AMT is to *eliminate the benefit of certain tax deductions*.

Since the SALT deduction has increased, some Taxpayers may again be subject to the AMT. It is important to note that the AMT should only apply to very high-income groups. The AMT exemption amounts for 2025 are \$137,000 for joint returns and \$88,100 for single returns and will not be phased out until AMTI exceeds \$1,252,700 joint or \$626,350 single.

The following tabulation shows which common itemized (Schedule A) deductions are deductible under the respective tax computation:

	<u>Regular Tax Computation</u>	<u>AMT Computation</u>
Interest		
Qualified Housing Interest	Yes	Yes
Home Equity Interest, other than Qualified Housing Interest on debt up to \$100,000 (any excess)	No No	No No
Investment Interest to the extent of Investment Income (any excess)	Yes No	Yes No
Qualified Car Loan Interest (Up to \$10,000)	Yes	Yes
Contributions	Yes	Yes
Taxes – All Types (Up to \$40,000)	Yes	No
Misc. Deductions – Subject to 2% floor	No	No

In addition to the above, several other items are used to compute regular and alternative minimum taxable incomes, therefore, careful tax planning is necessary to make sure tax-motivated transactions will provide the intended result.

PASSIVE ACTIVITY LOSSES

Losses incurred from passive activities are deductible only to the extent of passive income. Losses not deductible each year will be labeled “suspended losses” and carried over to future years to offset future passive income. Rental properties are classified as passive activities and therefore are subject to the passive loss rules on deductibility. An exception is provided to taxpayers who actively participate and own a 10% or more interest in real estate rental properties in that a maximum amount of \$25,000 of losses may be deducted without regard to the passive loss rules. The \$25,000 maximum amount is

reduced by 50% of the amount of adjusted gross income (AGI) over \$100,000 and is completely phased out after the AGI exceeds \$150,000.

TIMING OF INCOME – SALARIES, BONUSES AND FEES

The acceleration of income items may be appropriate if it appears deductions may exceed income or the AMT applies, thereby reducing or eliminating the tax benefit for deductions. The deceleration of income may be appropriate if your 2026 income will be less than your 2025 income.

TIMING OF DEDUCTIONS

Deductions – General Itemized deduction rules have been changed significantly including the almost doubling of the standard deduction and elimination or reduction of certain deductions. The 2025 standard deduction is \$15,750 single and \$31,500 for a married couple. An additional standard deduction is available if you are over age 65 on December 31, 2025, of \$2,000, single or \$1,600, married/each.

If you will be at or near the standard deduction amount, you could defer or accelerate certain deductions so that in a tax year (2025 or 2026) you can exceed the standard deduction. For example, you should consider “*deferring deductions*” if you fall short of the standard deduction in 2025 and then claim them in 2026 when you may be above the standard deduction.

Payment by December 31, 2025, will be valid if a check is mailed on or before December 31, 2025, with adequate postage and if you have sufficient funds in your account to cover the check.

Deductions – Interest Home mortgage interest is usually paid in the month following its accrual (your January mortgage payment usually pays December’s interest). Therefore, payment of your January 2026 mortgage payment by December 31, 2025, allows the December interest to be deducted in 2025. Mortgage companies are required to report to the IRS interest paid during the year.

Deductions – Home Equity Interest Beginning in 2018, home equity interest is *no longer tax deductible*.

Personal interest, i.e., credit cards are not tax deductible. You should therefore attempt to liquidate personal debts as soon as practicable.

Deductions – State and Local Taxes For 2025, the cap on state and local taxes, (including income and property taxes) are limited to a maximum of \$40,000.

Deductions – Charitable Contributions You should maintain adequate receipts for all charitable contributions. If the contribution is \$250 or more, you *must* have a written receipt from the charity with the date and amount along with a statement to the effect that “*no goods or services were provided in exchange for the gift*”.

CAPITAL ASSET TRANSACTIONS

The holding period for long-term capital assets is ***“more than twelve months.”*** If you have realized capital losses in 2025 or have a capital loss carryover from 2024, you should consider realizing capital gains to offset the capital losses. In addition, if you have “paper losses” in your stock portfolio, you may wish to realize such losses by selling the security. A net capital loss for the year can be used to offset other income up to \$3,000 per year with the balance being carried over to future years. The trade date rather than settlement date controls the tax reporting of a stock transaction. Therefore, if you desire to realize stock transactions in 2025, make sure the ***trade date*** is on or before December 31, 2025.

PERSONAL RESIDENCE

Federal and State tax laws offer special tax benefits to personal residence ownership, i.e., tax-free gains ***up to \$500,000*** and deduction for qualified housing interest. Interest on certain refinancing may not be deductible. Loan fees should be paid by a separate payment versus adding the amount to the loan. The determination of what interest is or is not qualified housing interest refers to the original purchase price plus the cost of improvements. ***You should be maintaining adequate records (updated at least annually) to substantiate your total cost basis of the residence including improvements.***

ESTIMATED TAX PENALTIES AND WITHHOLDINGS

If your 2025 withholdings and estimated tax payments are less than 90% of your 2025 tax liabilities, you could be subject to the nondeductible penalty for underpayment of estimated tax. You may be able to avoid this penalty by having paid an amount equal to the prior year’s (2024) total tax liability, or in some cases 110% of your prior year’s (2024) total tax liability. You should review your 2025 withholdings and estimated tax payments to see if you meet one of the exceptions noted above. You can authorize your employer to increase your December 2025 income tax withholdings to reduce or eliminate your exposure to the penalty.

INDIVIDUAL RETIREMENT ACCOUNT (IRA)

A \$7,000 IRA contribution can be made by individuals that are not covered by an employer sponsored retirement plan. If you are 50 or over by December 31, 2025, you can make an additional “catch-up” contribution of \$1,000 for 2025. Contributions to an IRA for 2025 must be made by April 15, 2026.

ROTH IRA CONVERSIONS

You should note that most IRA and Qualified plan retirement accounts are eligible for rollover conversion to a Roth IRA. A Roth IRA conversion is subject to tax at the time of conversion. However, ***qualified distributions*** from a Roth IRA are tax free. Roth IRA conversions are complex and should only be done after careful analysis.

SELF-EMPLOYED RETIREMENT PLANS

If you are self-employed, you may establish a Self-employed 401(k) Retirement Plan (Keogh) or a Simplified Employee Plan (SEP) for 2025. To be eligible for a 401(k) Keogh for 2025, the plan must be established by **December 31, 2025**. A SEP can be established by the due date of your return. The maximum contribution to a 401(k) Keogh or a SEP for 2025 is \$70,000. If you are 50 or over by December 31, 2025, you can make an ***additional “catch-up” contribution to a 401(k) Keogh of \$8,000 for 2025.*** Contributions to Keoghs and SEPs for 2025 need not be made until the ***due date of your tax returns***, April 15, 2026. However, if you file a **valid extension application to October 15, 2026, your 2025 contribution can be deferred to the extended due date.**

ANNUAL GIFT TAX EXCLUSIONS

Certain gifts are subject to gift taxes. If you are contemplating making a gift, you should note that you may gift, in general, \$19,000 in cash or value to each donee in 2025 without being subject to gift taxes. For 2026, the gift tax exclusion amount will remain at \$19,000.

REVIEW OF TAX REPORTING INFORMATION

Banks, stockbrokers, and others are required to report to the IRS certain amounts paid during the year on Forms 1099. You should periodically review all your account information and received Forms 1099 to determine if the paying agency has your correct reporting (social security) number. Incorrect reporting of numbers or income usually results in communications from the tax authorities that could easily be avoided.

EMPLOYEE WITHHOLDING CERTIFICATE (FORM W-4)

Employees should submit updated withholding allowance information to their employer each year. As part of my tax preparation service, I provide my clients with appropriate withholding allowance information for the upcoming year.

In conclusion, October, November, and December are the months to make a final review of your 2025 tax status. I am available to advise you on these or any other tax planning opportunities should you so desire.

Very truly yours,
Charles E. Solak

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